

Message Text

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SSO-00 ICAE-00 INRE-00 HA-05 ACDA-12 L-03 H-02
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E.O. 11652: N/A
TAGS: EGEN, OECD
SUBJECT: XCSS: THE NEED FOR POSITIVE ADJUSTMENT
POLICIES

1. FOLLOWING SUMMARIZES SECRETARIAT NOTE CE(78)8,
"THE NEED FOR POSITIVE ADJUSTMENT POLICIES," WHICH
IS TO SERVE AS BASIS FOR DISCUSSING ITEM 4 OF AGENDA
FOR APRIL 14 XCSS. (ADVANCE COPY WAS HANDCARRIED TO
WASHINGTON APRIL 7 BY LAMANTIA, EUR/RPE.) OBJECT
OF PAPER IS TO SUGGEST CERTAIN ORIENTATIONS FOR MORE
POSITIVE ADJUSTMENT POLICIES WHICH SECRETARIAT CONSIDERS
AN IMPORTANT COMPONENT OF ANY MORE GENERAL AGREEMENT ON
A POLICY PACKAGE DESIGNED TO FOSTER SUSTAINED NON-
INFLATIONARY GROWTH.

2. INCREASED NEED FOR ADJUSTMENT AND OBSTACLES TO
ACHIEVING IT: PAPER ARGUES OECD ECONOMIES FACE
INCREASED NEED TO ADJUST AS RESULT OF SUDDEN SHIFT
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IN ENERGY PRICES, INFLATION-INDUCED DISTORTIONS IN
RELATIVE LABOR AND CAPITAL PRICES, CLEAR BREAK IN
EARLIER GROWTH PROSPECTS FACED BY SOME SECTORS, SHIFT
IN DEMAND AWAY FROM INDUSTRY, DEMOGRAPHIC AND SOCIO-
LOGICAL FACTORS AFFECTING SUPPLY OF LABOR, AND COMPE-
TITION FROM NEWLY INDUSTRIALIZING COUNTRIES. CAPACITY
AND WILLINGNESS TO ADJUST HAS, HOWEVER, BEEN REDUCED

BY SLOW GROWTH, INCREASED LUMPINESS OF INVESTMENTS, HIGHER FIXED COSTS ASSOCIATED WITH LABOR, AND INCREASED CONCERN ABOUT ENVIRONMENTAL PROTECTION, SAFETY, JOB SECURITY, AND WELFARE OF DISADVANTAGED SEGMENTS OF SOCIETY.

3. RECENT TRENDS IN POLICIES: IN THE LAST FEW YEARS, THERE APPEARS TO HAVE BEEN SIGNIFICANT, THOUGH NOT ALWAYS MEASURABLE, RISE IN THE SIZE OF GOVERNMENT INTERVENTION AT THE SUB-MACRO LEVEL, COMBINING TRADE, MANPOWER, INDUSTRIAL AND REGIONAL POLICY INSTRUMENTS MAINLY GEARED TO MAINTAIN IN OPERATION THE EXISTING INDUSTRIAL STRUCTURE AND THUS LIMIT THE RISE IN UNEMPLOYMENT. THERE HAS BEEN AN INCREASING CIRCULARITY OF THE WHOLE PROCESS OF INTERVENTIONISM. INTERNATIONALLY, SUBSIDIES LEAD TO TRADE RESTRICTIONS OR OFFSETTING ASSISTANCE TO INDUSTRY IN OTHER COUNTRIES, AND VICE VERSA. DOMESTICALLY, RATIONALIZATION IN CONDITIONS OF WEAK DEMAND INCREASED THE NEED FOR LABOR SUBSIDIES AND MORE LEGISLATION FOR JOB SECURITY AND INCOME MAINTENANCE BUT THE COST OF THESE MEASURES IN TURN PUSHED ENTERPRISES INTO MORE LABOR-SAVING. THE TWO VICIOUS CIRCLES ARE INCREASINGLY INTER-RELATED.

4. DANGERS INHERENT IN CONTINUATION OF RECENT TRENDS: CONTINUATION OF THE PRESENT TRENDS IN POLICY COULD UNCLASSIFIED

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PROGRESSIVELY UNDERMINE THE DYNAMIC PROCESSES GENERATING RISING PRODUCTIVITY AND FORECLOSE THE OPTION OF ACHIEVING SUSTAINED NONINFLATIONARY GROWTH. IMPORTANT LARGE RESOURCES OF SKILLED LABOR, MANAGEMENT AND CAPITAL ARE LOCKED INTO DECLINING INDUSTRIES AND COMPANIES. DEFENSIVE POLICIES AFFECT THE TIME-HORIZON OF INVESTMENT, BY ENCOURAGING PROCESS AS OPPOSED TO PRODUCT INNOVATIONS, CAPITAL DEEPENING RATHER THAN WIDENING, VENTURES WITH A QUICK RETURN AS DISTINCT FROM HIGH RISK INVESTMENT WITH A LONG LEAD AND LIFETIME. RIGIDITIES ON CAPITAL MARKETS INCREASE AS A RISING SHARE OF INVESTMENT FINANCING GOES THROUGH SPECIAL CHANNELS. INTERVENTION IN THE PRICE MECHANISM PRODUCES INCREASING

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DISTORTIONS ON PRODUCT MARKETS WITH RESULT OF
MISALLOCATION OF RESOURCES AND MORE, RATHER THAN
LESS, UNCERTAINTY FACING INVESTORS.

5. POLICIES FOR ADJUSTMENT: AFTER STRESSING THE
CLOSE LINK BETWEEN THE NEED FOR A STRONGER RISE IN
AGGREGATE DEMAND AND THE NEED FOR POSITIVE ADJUSTMENT
POLICIES, THE PAPER SUGGESTS POLICY ORIENTATIONS IN
THE THREE AREAS OF SECTORAL RATIONALIZATION AND
RESTRUCTURING, GENERAL INDUSTRIAL POLICY, AND
EMPLOYMENT POLICY:

-- ACTION SHOULD NOT BE TAKEN UNTIL ALL POSSIBILITIES
FOR PRIVATE FINANCIAL ASSISTANCE HAVE BEEN FULLY
UTILIZED. IT SHOULD BE ENACTED ON A TEMPORARY
BASIS AND SHOULD, WHEREVER POSSIBLE, BE REDUCED
PROGRESSIVELY ACCORDING TO A PRE-ARRANGED TIMETABLE.

-- SUCH ACTION SHOULD BE INTEGRALLY LINKED TO THE
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IMPLEMENTATION OF PLANS TO PHASE OUT OBSOLETE
CAPACITY AND CREATE FINANCIALLY VIABLE ENTITIES.

-- THE COSTS OF SUCH ACTION SHOULD BE MADE AS EVIDENT
AS POSSIBLE TO DECISION MAKERS AND THE PUBLIC AT
LARGE. CAREFUL ATTENTION SHOULD BE PAID TO THE

COSTS TO CONSUMERS OF ACTION WHICH RAISES PRICES AND TO THE EFFECTS OF SUBSIDIZED COMPETITION ON OTHER COMPANIES AND EMPLOYMENT ELSEWHERE. SPECIAL INSTITUTIONAL ARRANGEMENTS MAY BE DESIRABLE FOR THIS PURPOSE.

-- WHERE PUBLIC FUNDS ARE BEING INJECTED, IT IS DESIRABLE THAT THERE SHOULD ALSO BE AN ELEMENT OF PRIVATE RISK CAPITAL INVOLVED.

-- ASSISTANCE GIVEN ON A COMPANY-BY-COMPANY BASIS CAN PROVIDE AN INCENTIVE TO BAD MANAGEMENT. WHILE, IN SOME CASES, THIS MAY BE INEVITABLE IN THE SHORT RUN, THE ARRANGEMENTS SHOULD BE FRAMED SO AS TO KEEP IT IN CHECK THROUGH DOMESTIC AND INTERNATIONAL COMPETITION.

-- WHERE THE PRIMARY OBJECTIVE IS TO MAINTAIN EMPLOYMENT IN PARTICULAR REGIONS OR TOWNS, CAREFUL CONSIDERATION SHOULD BE GIVEN TO THE ALTERNATIVE OF MAKING ASSISTANCE OR FACILITIES AVAILABLE TO ALL COMPANIES IN THE AREA CONCERNED RATHER THAN ONLY TO THOSE IN FINANCIAL DIFFICULTY.

-- ARGUMENTS FOR PROTECTION AND SUPPORT BASED ON CONSIDERATIONS OF NATIONAL SECURITY SHOULD BE SCRUTINIZED WITH PARTICULAR CARE.

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PAPER NOTES THERE IS GOOD CASE FOR POOLING INFORMATION AND CARRYING OUT JOINT STUDIES OF LIKELY SUPPLY AND DEMAND TRENDS TO HELP INDIVIDUAL FIRMS AND COUNTRIES PLAN RATIONALIZATION AND RESTRUCTURING OF SPECIFIC SECTORS, BUT WARNS AGAINST DANGERS OF CARTELIZATION AND IMPORT RESTRICTIONS.

B. GENERAL INDUSTRIAL POLICY: A COMPREHENSIVE APPROACH TO CONSIDERING INDUSTRY AS A WHOLE, RATHER THAN SPECIFIC SECTORS, SHOULD BE BASED ON RECOGNITION THAT MATURE INDUSTRIALIZED COUNTRIES HAVE A COMPARATIVE ADVANTAGE IN ACTIVITIES COMBINING ADVANCED TECHNOLOGIES, HIGHLY SKILLED LABOR AND MANAGEMENT, AND SUBSTANTIAL USE OF CAPITAL. POLICIES WHICH WOULD SUPPLEMENT MARKET FORCES IN PROMOTING DESIRABLE DEVELOPMENTS ARE:

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-- THERE ARE CERTAIN AREAS WHERE IT IS REASONABLE FOR
GOVERNMENTS TO ASSUME THAT MARKETS ARE NOT FULLY
ANTICIPATING FUTURE NEEDS. THIS APPLIES ABOVE
ALL TO INNOVATION AND INVESTMENT IN PRODUCING AND
SAVING ENERGY. IT ALSO APPLIES TO ANTI-POLLUTION
DEVICES, AND IMPROVEMENTS IN ENVIRONMENTAL QUALITY
AND URBAN INFRA-STRUCTURES.

-- FURTHER ENCOURAGEMENT TO RESEARCH AND DEVELOPMENT
BASED ON EXPERIENCE FROM THE PAST -- WHICH HAS, ON
THE WHOLE, BEEN MORE FAVORABLE FOR PROCUREMENT AND
"SHARED RISK" DEVELOPMENT POLICIES THAN FOR DIRECT
INCENTIVES.

-- SPECIAL POLICIES DIRECTED TOWARDS SMALL AND
MEDIUM-SIZED COMPANIES TO ENSURE THAT THEY HAVE
ADEQUATE ACCESS TO VENTURE CAPITAL AND INCENTIVES TO
INNOVATE, SPECIALIZE AND MODERNIZE.

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C. EMPLOYMENT AND MANPOWER POLICIES: AS THE

GENERAL EXPANSION OF OUTPUT GATHERS SUFFICIENT MOMENTUM TO ALLOW FOR A SELF-SUSTAINED GROWTH OF EMPLOYMENT, POLICIES SHOULD BE PROGRESSIVELY MODIFIED ALONG THE FOLLOWING LINES:

- PHASING OUT GENERAL INCENTIVES TO HOLD ON TO LABOR, OR THEIR REPLACEMENT BY SCHEMES WHICH ENCOURAGE TAKING ON ADDITIONAL WORKERS;
- PHASING OUT JOB CREATION SCHEMES IN THE PUBLIC SECTOR WHOSE PRIMARY AIM WAS TO PROVIDE TRAINING AND JOB EXPERIENCE, WHILE CONTINUING TO DEVELOP PROGRAMS DESIGNED TO MEET LEGITIMATE NEEDS FOR INCREASED PUBLIC SERVICES;
- BETTER TARGETING OF PROGRAMS TO BENEFIT CLEARLY DEFINED GROUPS ENCOUNTERING STRUCTURAL EMPLOYMENT PROBLEMS (YOUTH, WOMEN, MINORITIES);
- SHIFTING THE EMPHASIS OF MANPOWER POLICIES BACK TOWARDS SUPPLY MEASURES SUCH AS TRAINING, MOBILITY AND PLACEMENT TO PROVIDE FOR LESS INFLATIONARY EXPANSION OF EMPLOYMENT AND TO FACILITATE ADJUSTMENT TO SHIFTING DEMANDS, TECHNOLOGICAL PROGRESS AND CHANGING PATTERNS OF TRADE.

PAPER SUGGESTS ACTION IS ALSO NECESSARY TO REDUCE EXISTING RIGIDITIES AND DISTORTIONS IN LABOR MARKETS, INCLUDING

- SHIFTING MORE OF THE COSTS OF CHANGE (REDUNDANCY
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PAYMENTS, RETRAINING, ETC.) ON TO SOCIETY AS A WHOLE, RATHER THAN ON EMPLOYERS, EITHER BY TAKING THEM OVER DIRECTLY OR PROVIDING COMPENSATION TO EMPLOYERS THROUGH THE TAX OR TRANSFER SYSTEM;

- FINANCING SOCIAL SECURITY COSTS MORE FROM TAXES ON INCOME OR EXPENDITURES RATHER THAN FROM TAXES ON THE USE OF LABOR;

- INCREASING SPECIAL EMPLOYMENT PROGRAMS DIRECTED AT THE LONG-TERM UNEMPLOYED.

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TAGS: EGEN, OECD
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